Current Issues of transformation of public water utilities in Serbia

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Belgrade, 4 September 2014
WHO, APART FROM PUBLIC UTILITIES, PROVIDES UTILITY SERVICES IN SERBIA?

- **Several companies wholly-owned by the state (or municipality):** Mali Idjoš Ltd., Feketić Ltd., Tisa River Basin Waterworks Ltd. from Horgoš, Titel Municipality Spring Ltd., Ekotamnava Ltd. from Ub, and Regional Landfill Ltd.
- **Socially-owned enterprises:** 2nd October from Vršac and Novi Sad Gas
- **Small local communities: within** the municipalities of Novi Bečej, Sečanj, Alibunar, Opovo, Plandište, Odžaci, Svilajnac, Majdanpek...
- **Privately-held companies or companies with majority private capital,** holding long-term permits to provide utility services: Brantner and PORR Wehrner Weber Austria, A.S.A. Spain, Trojan Fisher Germany, Rosal, Spider, Greece...
- **Other companies or entrepreneurs,** providing utility services **in the short term or as needed.** Local urban and suburban public transportation, maintain roads, provide zoo hygiene services and maintain public lighting (there are more than 50 such entities).
- Water supply and wastewater evacuation and treatment services are generally provided by municipal (public) utilities or state-held companies, but also local communities and one socially-owned enterprise.
HOW MANY ACTIVE PUBLIC UTILITIES ARE THERE IN SERBIA?

There are 360 active public utilities, of which:

- 303 are conventional municipal public utilities
- 38 are rural public utilities
- 2 are in receivership
- 17 are located in Kosovo

PU Structure: Water, Waste water

- PUs specializing in water supply: 46 (15%)
- Pus providing multiple services, including water supply: 98 (32%)

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### PERFORMANCE INDICATORS (SAMPLE OF 200 PUs)

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>13/09</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WORKFORCE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>35,441</td>
<td>35,666</td>
<td>35,933</td>
<td>36,814</td>
<td>37,731</td>
<td>6%</td>
</tr>
<tr>
<td><strong>CAPITAL</strong></td>
<td></td>
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<tr>
<td></td>
<td>1,611,130,758 €</td>
<td>1,527,602,878 €</td>
<td>1,484,017,650 €</td>
<td>-8%</td>
<td></td>
<td></td>
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<tr>
<td><strong>REVENUE GROWTH</strong></td>
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<tr>
<td></td>
<td>760,729,877 €</td>
<td>884,256,987 €</td>
<td>926,825,390 €</td>
<td>22%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>PROFIT/LOSS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>26,577,671 €</td>
<td>-24,177,325 €</td>
<td>-3,310,311 €</td>
<td></td>
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</tr>
</tbody>
</table>

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### ACCESS TO PUBLIC UTILITIES AND AFFORDABILITY

<table>
<thead>
<tr>
<th>Service</th>
<th>Access (% of population)</th>
<th>Affordability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production and distribution of drinking water</td>
<td>80%</td>
<td>Below limit</td>
</tr>
<tr>
<td>Wastewater evacuation</td>
<td>47%</td>
<td>Below limit</td>
</tr>
<tr>
<td>Wastewater treatment</td>
<td>12%</td>
<td>Below limit</td>
</tr>
</tbody>
</table>

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SUMMARY

- The day-to-day operations of most of Serbia’s public utilities are hindered by numerous difficulties, which have not been addressed for a number of years, have virtually stopped the development of the utilities sector and have placed public utilities in a situation where the public interest, inherent in their very nature, has become threatened.

- Capital projects aimed at creating new or extending existing communal infrastructures are generally undertaken only in cases where funding is provided from grants or loans from international development and financial institutions, while spending on capital improvement of existing infrastructure is virtually disregarded.

- On the one hand, public utilities are expected to report a sound bottom line (no losses, meaning at least minimal gains), so as not to add to the already overburdened local budgets, while, on the other hand, these very same public utilities are perceived as one of the pillars that protect the (low) standard of living, and this implies non-economic pricing of their services.
The rate of revenue collection is extremely low and it is difficult to maintain current liquidity and solvency. On average, public utilities in Serbia collect only about 70% of their revenues. In some areas the rate of collection is even below 50%.

Public utilities are additionally burdened by pressures to hire and delays in budget payments for services provided.

Systemic and sectorial legislation that regulates the utilities sector is not always consistent and not all the needed acts of secondary legislation have been enacted.
WHAT KIND OF UTILITIES SECTOR REFORM DO WE NEED?

Comprehensive change or “fixing” of the current system

- Numerous partial fixes of the utilities sector’s business environment have been undertaken to date, but not only did they fail to improve the situation, they actually aggravated it.

- CCIS has developed a utilities restructuring concept and the initial document was reviewed by public utilities (PUs), within their respective groups at CCIS, then by representative labor unions: the Association of Autonomous Trade Unions and the Independence Union, and also by the Standing Conference of Cities and Municipalities in which the founders of public utilities are represented.

- The position of the utilities sector has been conveyed to the Ministry of Economy.

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WHAT KIND OF UTILITIES SECTOR REFORM DO WE NEED?

The past approach to issues needs to be modified. Changes should be implemented in a HOLISTIC manner.

The Serbian Government should play a key role in the holistic approach to reforms, primarily because of the need to ensure:

- A utilities sector reform consistent with other national objectives and aimed at conserving national natural resources, the environment and public interests as reflected in the utilities sector;
- A legal framework for local administrations with straightforward guidelines.
WHAT DOES “HOLISTIC CHANGE” INVOLVE?

Reform (restructuring) in 4 steps

Any reform of the utilities sector will be effective only if it duly protects public (general) interests and includes efficient monopoly controls, as monopoly is inherent in the very nature of utilities. Because of genuine risks, the changes need to be well thought out, following a holistic approach, which includes:

- Defining of the courses of action
- Improvement of main business parameters (consolidation) of existing providers of utility services (PUs)
- Enactment of restructuring plans at national and local levels
- Implementation of local plans
The following key initial courses of action came out of the debate:

- Under no circumstances should any reform of the utilities sector result in a loss of government control over the infrastructure operated by utilities.
- There is room for private capital’s participation in the utilities’ sector, particularly in segments that do not rely on the use of communal infrastructure.
- Serbia’s public utilities should be allowed more market freedom in the near future.
- Serbia’s public utilities should be corporatized (gradually transformed to assume conventional rules of corporate governance and management) on a priority basis.
- If transformed into joint-stock companies, the stock of corporatized PUs should be accessible to retail shareholders (citizens or employees).
SECOND STEP: MANDATORY CONSOLIDATION!!!

This step is indispensable for several reasons, primarily because it is much more difficult to transform a company that has serious issues than that which does not. The most important measures that need to be implemented PROMPTLY, are to:

- Finalize recording of PU infrastructures
- Valuate PU assets and delineate ownership
- Optimize all types of expenses using existing controls
- Adjust charges for PU services, up to the level of legitimate costs
- Take all necessary action to ensure better legal protection of earnings and improve the rate of revenue collection
- Allocate a portion of the funds (primarily from depreciation) to the procurement of equipment and vehicles, to upgrade technical capabilities and performance
THIRD STEP: ENACTMENT OF RESTRUCTURING PLANS AT NATIONAL AND LOCAL LEVELS

Countries that planned changes fared much better!

The national plan for utilities sector restructuring (reform) should be a guidance document for changes and needs to ensure that all 154 local self-governing units/decision makers share the same approach to restructuring. Of course, this document needs to ensure harmonization of systemic and sectorial legislation.

- In addition to an assessment of the present situation, the national plan needs to include recommended restructuring models along with a risk analyses.
- Based on the national plan, local self-governing units will enact specific plans to meet all demands of PU service users and identify operators that will be entrusted to provide such services.
- The enactment of such a plan at the local level should be MANDATORY, with a specified timeframe.

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FOURTH STEP: FORMAL RESTRUCTURING PROCESS

- Restructuring involves a series of major decisions taken by local self-governing units, whose level of development varies and which exhibit a number of specific features. These decisions need to be consistent with the previously established plan for a holistic response to the demands of citizens and other users of PU services within the territory of the respective unit.

- The assembly of the local self-governing unit needs to adhere to the rules prescribed in its bylaws and other documents, in taking decisions on procedures for contract award to providers, amendment of articles of association, spin-offs, mergers, and the like.

- It is extremely important for the proceedings to be fully transparent from beginning to end.
SUMMARY

- A holistic and well-planned reform of the utilities sector is in the interest of all users of services.
- The goal of the reform should be to ensure a new quality and better standards for users of services.
- Protection of public interests and monopoly controls are central issues.
- Full agreement on key choices is a precondition for an effective reform.
- Consolidation of existing companies is essential.
- TOMORROW, a public utility should operate on a long-term sustainable basis, supported and controlled by government agencies but with no interventions from the government budget.
ПРИВРЕДНА КОМОРА СРБИЈЕ
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